

How Does CalSTRS identify companies as having direct or relevant ties to Iran?

CalSTRS utilizes two data providers, Risk Metrics and KLD (however, Risk Metrics has purchased KLD and expect them to merge their research in the near future). We are currently evaluating two other providers to potentially replace KLD. These providers send us research monthly which is reviewed and compared to our holdings. Additionally, we have a news service that monitors for stories relating to companies doing business in Iran. Lastly, staff routinely inquires about operations in Iran or Sudan when engaging portfolio companies that could potentially fall under the statute.

Additionally, CalSTRS has a 21 point Geopolitical Risk Policy (attachment A) our managers follow when making investment on our behalf. If a manager has an investment or potential investment and are concerned about the company's possible ties to Iran they will notify CalSTRS staff to research the issue.

How deep are the links to business dealings in Iran for a firm using foreign subsidiaries?

We are not aware of any US companies in the targeted sectors using independent foreign subsidiaries to do business in Iran. For foreign firms we have been identified through our research the ties are generally buyback service contracts for oil and gas exploration or general construction contracts.

How are companies and their holdings, contracts, and investments tracked?

For the purposes of identifying companies CalSTRS receives monthly updates from our data providers that track Iran related companies. We also use a news service that monitors for stories relating to companies doing business in Iran as well as monitoring stories relating to companies we have identified as having ties to Iran. Lastly, as part of our general engagement process, we routinely ask companies that could potentially fall under the statute if they have operations in Iran or Sudan.

For the purposes of monitoring companies already identified, CalSTRS sends the identified companies letters annually as well as meet with the companies at every opportunity. Staff has traveled extensively to engage the identified companies about their activities. In addition the companies are well aware of our interest and routinely call us to meet with their executives when they are in the area.

If a company removes itself from the Iran—how do we know they do not go back under different names etc. – are they still tracked?

Companies that have withdrawn from Iran will stay on the CalSTRS list until it is confirmed that all of their operations in the country are completed. These companies remain on our list in a monitor status and we continue to engage them at every opportunity to ensure they are keeping with their commitments.

If a company were to use a deceptive tactic to re-enter the country it could be very difficult to detect. The most likely scenario is the renamed entity would show up on our research and we would find the link to the parent during our engagement of the “new” entity.

How many companies, investments were identified as subject to the Act in the CalSTRS portfolio initially in January 2008 and how many now?

CalSTRS list began in spring of 2007 when we were provided a list from AIPAC of 20 companies believed to be doing business in Iran. When the law was implemented in January 2008, our list had 34 companies identified of which 4 were already restricted under Sudan legislation and 10 companies CalSTRS did not hold.

Currently, the CalSTRS list has 56 companies identified, 7 are restricted, 5 are in some stage of review, 16 are in a monitor status, and 28 CalSTRS does not hold.

What activities does the RiskMetrics Group undertake and what activities does CalSTRS undertake on the issue?

As mentioned previously, we have contracted with RiskMetrics as a data provider. RiskMetrics supplies us with a list of companies that they have identified through public sources and worked to independently verify. Staff reviews the RiskMetrics research and checks the list against our holdings.

As divestment is a serious step, senior CalSTRS staff including CIO Christopher Ailman takes on the responsibility of engaging the identified companies utilizing the data from Risk Metrics as well as multiple other sources.

As our external managers are required to follow the CalSTRS Board's Geopolitical Risk Policy we stay in regular contact with them during this process. As always under this policy external investment managers are required to analyze the Geopolitical Risk around all investments they make on our behalf.

What are the costs associates with conforming to the Act—Internal and External?

CalSTRS has incurred several costs in order to implement the Act including: \$15,000 for data providers, considerable staff time and travel, transaction costs, and opportunity loss.

Have there been any attempts to inform your members of companies that have holdings in Iran via on line print material?

CalSTRS does make its total portfolio available as of June 30th of each year. If a member would like to know if we are holding a specific company that information is available. The companies that we have divested are included in our annual report to the Legislature as well as some information that was already presented publicly, is publicly available. The research on companies being monitored is not publicly available.

Do your analysts provide any advice with respect to activities that might aid in encouraging companies to withdraw?

CalSTRS' engagement of identified companies generally involves making companies aware of the legislation and the potential that we may be forced to divest. We have found the most productive engagement is to focus on the risks of operating in sensitive area, how those risks can affect shareholder value, and what actions the company is taking to mitigate the risks.

Additionally, CalSTRS is a member of several groups that engage on these types of efforts including the Conflict Risk Network (CRN) and UNPRI including the UNPRI/Global Compact working group on investment in conflict areas. Through these member organizations we work with other investors to develop effective communication with companies and engage companies on geopolitical issues.